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**MONTANA MEDICAL LEGAL PANEL  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 1998 AND 1997**

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**MONTANA MEDICAL LEGAL PANEL**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
DECEMBER 31, 1998 AND 1997**



# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel  
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
James Gillett, Financial-Compliance Audit

June 1999

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the audit of the Montana Medical-Legal Panel, Montana Supreme Court for the year ended December 31, 1998.

Henry Fenton, Certified Public Accountant conducted the audit, under a contract between the firm and our office. The comments contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The Panel's written response to the report is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat".

Scott A. Seacat  
Legislative Auditor

CDA/m/d24.ltr  
Enclosure(s)



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**MONTANA MEDICAL LEGAL PANEL**

**ADMINISTRATIVE OFFICIALS**

G. Brian Zins

Director

Lavonne J. Arnold

Assistant Director



**MONTANA MEDICAL LEGAL PANEL**  
**December 31, 1998**

**SUMMARY OF RECOMMENDATIONS**

There were no recommendations for the year ended December 31, 1998.



**HENRY FENTON**  
CERTIFIED PUBLIC ACCOUNTANT

1052 NORTH RODNEY  
HELENA, MONTANA 59601-3578

—  
TELEPHONE: (406) 449-6049

**INDEPENDENT AUDITOR'S REPORT**

May 27, 1999

Mr. G. Brian Zins, Director  
Montana Medical Legal Panel  
2021 Eleventh Avenue  
Helena, Mt. 59601

I have audited the accompanying statement of assets, liabilities, and surplus arising from cash transactions of the Montana Medical Legal Panel as of December 31, 1998 and 1997, and the related statement of revenues collected, expenses paid, and changes in surplus arising from cash transactions for the two years then ended. These financial statements are the responsibility of the management of the Montana Medical Legal Panel. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

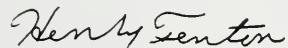
As described in Note 1, the Montana Medical Legal Panel's policy is to prepare its financial statements on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently, revenues and the related assets are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred.

In my opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and surplus arising from cash transactions of the Montana Medical Legal Panel as of December 31, 1998 and 1997 and its revenues collected, expenses paid, and changes in surplus for the two years then ended, on the basis of accounting described in Note 1.

The Year 2000 Readiness Disclosure on page 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of presentation of the supplementary information. However, I did not audit the information and do not express an opinion on it.



In accordance with *Government Auditing Standards*, I have also issued a report dated May 27, 1999 on my consideration of the Montana Medical Legal Panel's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants.



Henry Fenton

Certified Public Accountant



MONTANA MEDICAL LEGAL PANEL  
STATEMENT OF ASSETS, LIABILITIES, AND SURPLUS  
ARISING FROM CASH TRANSACTIONS  
DECEMBER 31, 1998 AND 1997

|                                | <u>1998</u>            | <u>1997</u>             |
|--------------------------------|------------------------|-------------------------|
| <b>ASSETS</b>                  |                        |                         |
| Current assets:                |                        |                         |
| Cash in bank                   | \$42,660               | \$115,640               |
| Accounts receivable            | <u>269</u>             | <u>289</u>              |
| Total current assets           | <u><u>\$42,929</u></u> | <u><u>\$115,929</u></u> |
| <b>LIABILITIES AND SURPLUS</b> |                        |                         |
| Surplus                        | <u><u>\$42,929</u></u> | <u><u>\$115,929</u></u> |

See accompanying notes to financial statements.



**MONTANA MEDICAL LEGAL PANEL**  
**STATEMENT OF REVENUES COLLECTED, EXPENSES PAID, AND CHANGES IN SURPLUS**  
**ARISING FROM CASH TRANSACTIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 1998 AND 1997**

|                                      | <b>1998</b>            | <b>1997</b>             |
|--------------------------------------|------------------------|-------------------------|
| <b>Income:</b>                       |                        |                         |
| Assessment fees                      | \$497,050              | \$496,501               |
| Interest income                      | 6,231                  | 7,335                   |
| Miscellaneous income                 | 541                    | 240                     |
| <b>Total income</b>                  | <b><u>503,822</u></b>  | <b><u>504,076</u></b>   |
| <b>Expenses:</b>                     |                        |                         |
| Administrative                       | 175,704                | 162,264                 |
| Panelist hearing time                | 97,958                 | 88,064                  |
| Panelist preparation and travel time | 53,948                 | 43,742                  |
| Panelist travel                      | 66,829                 | 55,221                  |
| Temporary personnel                  | 8,916                  | 8,530                   |
| Meeting rooms                        | 9,233                  | 7,498                   |
| Records reproduction                 | 44,143                 | 36,288                  |
| Postage                              | 19,067                 | 14,969                  |
| Medical records and x-rays           | 24,510                 | 14,171                  |
| Telephone                            | 14,937                 | 8,762                   |
| Office supplies                      | 7,084                  | 3,281                   |
| Panel legal counsel                  | 33,220                 | 7,008                   |
| Legal defense                        | 14,404                 | 7,359                   |
| Computer software                    | 3,667                  | 3,556                   |
| Liability insurance                  | 252                    | 2,916                   |
| Miscellaneous                        | 2,950                  | 2,946                   |
| <b>Total expenses</b>                | <b><u>576,822</u></b>  | <b><u>466,575</u></b>   |
| <b>Net income (loss)</b>             | <b><u>(73,000)</u></b> | <b><u>37,501</u></b>    |
| <b>Surplus, January 1st</b>          | <b><u>115,929</u></b>  | <b><u>78,428</u></b>    |
| <b>Surplus, December 31st</b>        | <b><u>\$42,929</u></b> | <b><u>\$115,929</u></b> |

See accompanying notes to financial statements.



**MONTANA MEDICAL LEGAL PANEL  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 1998 AND 1997**

**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Panel was established by the "Montana Medical Legal Panel Act", as authorized by Section 27-6-101 and 104 M.C.A. The Panel is attached to the Montana Supreme Court for administrative purposes only, except that 2-15-121(2) M.C.A. does not apply.

The Panel was created to review all malpractice claims or potential claims against health care providers for the purpose of preventing, where possible, the filing of court actions against health care providers and their employees for professional liability in situations where the facts do not permit at least a reasonable inference of malpractice and to make possible the fair and equitable disposition of such claims against health care providers as are or reasonably may be well founded.

**Cash Basis**

The Panel follows the cash basis of accounting whereby items of expense are recognized as cash is paid and revenues are recognized when cash is received.

**Assessment Fees**

Annual assessments are levied against licensed physicians, dentists, podiatrists, hospitals, and other health care facilities in an amount sufficient to meet all panel costs. Annual assessments are apportioned among each group of health care providers according to the number of claims brought against each type of provider.

**NOTE 2. CASH DEPOSITS**

Cash in bank consists of deposits in one checking account and two savings accounts. The deposits are fully insured.

**NOTE 3. RELATED PARTIES**

G. Brian Zins is director of both the Montana Medical Association and the Montana Medical Legal Panel. The Montana Medical Association bills the Montana Medical Legal Panel for services and facilities provided to that organization. This administrative fee is subject to the approval of the Chief Justice of the Montana Supreme Court. The billings were \$175,704 in 1998 and \$162,264 in 1997.



**MONTANA MEDICAL LEGAL PANEL  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 1998 AND 1997**

**NOTE 4. 1999 ASSESSMENTS**

In November, 1998, Montana voters approved Constitutional Initiative Number 75 (CI 75). The initiative subjected all increases in taxes, fees, and assessments by governmental entities within the state to voter approval before such increases could become effective. The initiative was later overturned by the Montana Supreme Court. However, before the Court's decision, Panel assessments for 1999 had to be determined and assessment notices mailed. Because CI 75 had not yet been overturned, 1999 assessments were set at the same rate as 1998. Because Panel costs are increasing, and because assessments were not increased, the Panel may face a cash shortage before the end of 1999 that could affect the Panel's ability to hold hearings on claims.

**NOTE 5. LEGAL FEES/LITIGATION**

Panel legal counsel fees increased significantly in 1998 due to time spent by the Panel's legal counsel in compiling data for and preparing statistical reports pertaining to claims filed, hearings held, and disposition of claims subsequent to Panel hearings.

Legal defense fees were incurred in responding to two actions brought against the Panel. One case was a civil lawsuit claiming damages resulting from a decision of a review panel in a claim against a health care provider. The Panel filed a motion for summary judgement in state district court asking that the claim against it be dismissed. This motion was granted on April 8, 1999, though an appeal by the Plaintiff is anticipated. The second case involves an action brought to compel the Panel to obtain medical records from a physician who is refusing to release them on grounds of confidentiality. Management believes that the outcome of both suits will be favorable and will not result in a significant loss to the Panel. However, the Panel will continue to incur legal costs until final settlement of the suits. The total amount of such costs that will be incurred cannot be determined or estimated.

**NOTE 6. RISK MANAGEMENT**

The Panel is exposed to risk of loss primarily through possible errors and omissions pertaining to claims filed with the Panel. This risk is transferred through the purchase of a professional liability policy from a private insurance carrier.

Liability insurance costs are less in 1998 because the premium for renewing the Panel's professional liability policy was not paid until 1999 and thus not included in these cash basis financial statements. The renewal premium was \$1,900.



**MONTANA MEDICAL LEGAL PANEL  
REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 1998 AND 1997**

**YEAR 2000 READINESS DISCLOSURE**

The Governmental Accounting Standards Board (GASB) is concerned that the "year 2000 Issue" (Y2K) may cause computer programs to fail and that the failure could seriously affect an organization's operations in the year 2000 (or fiscal years beginning in 1999) and beyond. Accordingly, GASB requires governments to disclose a general description of the year 2000 issue as it relates to their organization.

Many computer programs (including mechanical equipment that is dependent on microchip technology, such as elevators, vehicles, heating systems, etc.) use only two digits to designate the year (i.e., 98 instead of 1998) and will not be able to distinguish between the year 2000 and the year 1900. If the operation of the system is "date sensitive" (and the computer program is not corrected), it may cause the program to process data inaccurately or to stop processing data altogether.

The Montana Medical Legal Panel uses computer hardware and software in its internal operations and is dependent to a certain extent on external computer systems. Internally, the Panel's data is processed and stored on hardware owned by the Montana Medical Association. The Association is replacing all computer hardware with Y2K compliant machines. This is expected to be accomplished before the end of calendar year 1999. Also, the operating system and networking software are being upgraded. The Panel's assessment billing database is maintained using a software program specifically designed for that purpose by an outside vendor. The vendor is modifying the program to be Y2K compliant. The Panel is planning to replace its general ledger software with a Y2K compliant version of a commercial accounting program. The Panel is relying on vendor testing and validation of these systems for Y2K compliance. Externally, the Panel is dependent on the banks at which its deposit accounts are maintained to process deposits and withdrawals in these accounts properly. The banks have made general representations to their depositors that their systems will be compliant.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of the Panel in dealing with the issue will not be fully determinable until the year 2000 and thereafter. The Panel's management cannot assure that the Panel is or will be year 2000 ready, that the Panel's remediation efforts will be successful in whole or in part, or that parties with whom the Panel does business will be year 2000 ready.



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

May 27, 1999

Mr. G. Brian Zins  
Montana Medical Legal Panel  
2021 Eleventh Avenue  
Helena, Mt. 59601

I have audited the financial statements of the Montana Medical Legal Panel as of and for the two years ended December 31, 1998, and 1997 and have issued my report thereon dated May 27, 1999. I conducted my audit in accordance with generally accepted auditing standards, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Montana Medical Legal Panel's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audits, I considered the Montana Medical Legal Panel's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being



audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be a material weakness.

Status of Prior Year Findings

There were no findings in the prior year's report.

This report is intended for the information of the legislative audit committee and management. However, this report is a matter of public record and its distribution is not limited

*Henry Fenton*  
Henry Fenton  
Certified Public Accountant



# Montana Medical Legal Panel

2021 Eleventh Avenue, Suite 1, Helena, Montana 59601-4890 • Telephone (406) 443-1110 • FAX (406) 443-4042

June 1, 1999  
Tuesday

Mr. Scott A. Seacat  
Legislative Auditor  
P. O. Box 201705  
Helena, Montana 59620-1705

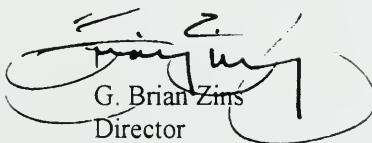
Dear Mr. Seacat:

As Director of the Montana Medical Legal Panel, I am corresponding with you about the recently completed audit of the Panel by Henry Fenton, C.P.A.

We have reviewed the audit and believe it accurately represents the financial records of the Panel for the 1998 fiscal year.

All best wishes.

Sincerely,



G. Brian Zins  
Director

GBZ:ba





